



Fairness Opinion

On the Valuation Report

Issued by Sharp & Tannan

For the Merger of

EMC Limited

&

McNally Bharat Engineering Company Limited

&

McNally Sayaji Engineering Company Limited

with

Kilburn Engineering Limited

MERCHANT BANKERS' REPORT

March 31, 2016



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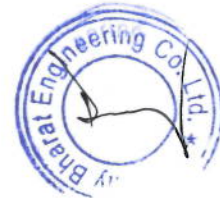
McNALLY BHARAT ENGINEERING CO. LTD.

DIBAKAR CHATTERJEE  
COMPANY SECRETARY



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## 1. INTRODUCTION

Kilburn Engineering Limited ("Kilburn") is engaged in the business of manufacture of different types of dryers and focuses on designing, manufacturing and commissioning customized equipment/systems for critical application in several industrial sectors.

EMC Limited ("EMC") is engaged in the business of manufacture of towers, hardware and conductor suitable for EPC projects. It also provides transmission, distribution, solutions for Power Transmission EPC projects.

McNally Bharat Engineering Company Limited ("McNally"), is engaged in the business of providing turnkey solutions in the areas of power, steel aluminium, material handling, mineral beneficiation, pyroprocessing, pneumatic handling of powdered materials including supplying and transferring of plants to the purchaser in response to orders received for delivery of plant in form of fly ash handling and high concentrate disposal, coal washing, Port cranes, Cement, Oil & Gas, civic and industrial water supply etc through its various industrial undertakings, supplying components at customer's site, erection and commissioning of plant.

Mc Nally Sayaji Engineering Limited ("MSEL") is engaged in the business of manufacture of crushing, screening, grinding, material handling and mineral processing equipment.

As a part of its corporate restructuring activity, the Board of Directors of Kilburn, EMC, McNally and MSEL is proposing to merge EMC Limited, McNally Bharat Engineering Company Limited and Mc Nally Sayaji Engineering Limited with Kilburn Engineering Limited pursuant to a scheme of Amalgamation under sections 391 to 394 of the Companies Act, 1956. Further, through the scheme of amalgamation, inter corporate deposits amounting to Rs. 40 crores are proposed to be converted into equity shares of Kilburn Engineering Limited at the fair value per share.

The equity shares of Kilburn are currently listed on the Bombay Stock Exchange and Calcutta Stock Exchange Limited. The equity shares of EMC Limited are unlisted. The equity shares of McNally are listed on Bombay Stock Exchange Limited and the National Stock Exchange of India Limited. The equity shares of MSEL are listed on regional stock exchanges

The exchange ratio for the merger of EMC, McNally and MSEL with Kilburn and the fair value per share of Kilburn for conversion of inter corporate deposits has been decided based on a valuation report issued by Sharp & Tannan, Chartered Accountants (the "Valuer").

For the purpose of ascertaining the fairness of the valuation, Microsec Capital Limited ("Microsec") has been appointed as an independent Merchant Banker for furnishing a fairness opinion on the valuation done by the Valuer.





## 2. PURPOSE OF FAIRNESS OPINION

As per SEBI circular CIR/CFD/CMD/16/2015 dated November 30, 2015 in relation to schemes of arrangement by listed entities, the companies going through any arrangement/amalgamation/reconstruction etc. are required to obtain a "Fairness Opinion" from an Independent Merchant Banker relating to the valuation of assets/ shares done by the Valuer.

## 3. LEGAL DISCLAIMER

We have been requested to issue a Fairness Opinion Report on the Report given by Sharp & Tannan, Chartered Accountants on the share exchange ratio for the merger and fair value per share of Kilburn for the conversion of inter corporate deposits into equity shares. In preparing this Fairness Opinion Report, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information provided to us.

In furnishing this Report, we reserve the right to amend or replace the Report at any time. Our views are necessarily based on economic, market, and other conditions currently in effect, and the information made available to us, as of the date hereof. It should be understood that subsequent developments may affect our views and that we do not have any obligation to update, revise, or reaffirm the views expressed in the Report. Nothing contained within the Report is or should be relied upon as a promise or representation as to the future.

The Report is to be read in totality, and not in parts, in conjunction with the relevant documents referred to herein.

Neither the report nor its contents may be referred to or quoted in any registration, statement, prospectus, offering memorandum, annual report, loan agreement or other agreement or document given to third parties, other than in connection with the proposed merger.

## 4. SOURCES OF INFORMATION RELIED UPON BY US FOR THE FAIRNESS OPINION

We have prepared the Fairness Opinion Report on the basis of the following information provided to us:

- Draft scheme of Arrangement
- Report dated 31st March 2016 issued by Sharp & Tannan, Chartered Accountants, recommending the share exchange ratio and the fair value per share of Kilburn for the conversion of inter corporate deposits
- Audited Annual reports for all the companies

We have also obtained necessary explanations and information, which we believed were relevant to the present exercise, from the executives and representatives of the companies.



## 5. BRIEF BACKGROUND OF THE COMPANIES UNDER REFERENCE

### Kilburn Engineering Limited

Kilburn Engineering Limited, incorporated on 07 September 1987 under the provisions of the Companies Act, 1956, is a public company and having its registered office at 4 Mangoe Lane, Kolkata, West Bengal 700 001. The Company is engaged in the business of manufacture of different types of dryers and focuses on designing, manufacturing and commissioning customized equipment/systems for critical application in several industrial sectors. The equity shares of Kilburn are listed on BSE Limited and the Calcutta Stock Exchange Limited.

The issued & paid-up equity share capital of Kilburn as at 31st December 2015 was INR 132.56 mn divided into 13,255,768 shares of INR 10/- each and its shareholding pattern was as follows:

| Category       | No. of shares held | % of Holding  |
|----------------|--------------------|---------------|
| Promoter Group | 75,67,738          | 57.09%        |
| Public         | 56,88,030          | 42.91%        |
| <b>Total</b>   | <b>13,255,768</b>  | <b>100.0%</b> |

### EMC Limited

EMC Limited, incorporated on 18 May 1953 under the provisions of the Indian Companies Act, 1913, is a public company having its registered office at Constantia Office Complex, (South Block), 8th Floor, 11, Dr. U.N. Brahmachari Street, Kolkata, West Bengal 700 017 and is engaged in the business of manufacture of towers, hardware and conductor suitable for EPC projects. It also provides transmission, distribution, solutions for Power Transmission EPC projects. The equity shares of EMC Limited are unlisted.

The issued & paid up equity share capital of EMC as at 29th February 2016 was INR 470 mn divided into 4,70,00,000 equity shares of INR 10/- each. The shareholding pattern as on 29th February 2016 is detailed herein below:

| Sr. No.   | Name of Shareholders                | No. of shares held | % Holding |
|-----------|-------------------------------------|--------------------|-----------|
| <b>A.</b> | <b>Shareholders holding &gt; 5%</b> |                    |           |
| 1         | MKN Investment (P) Ltd.             | 1,40,00,314        | 29.79%    |
| 2         | YMS Finance (P) Ltd.                | 60,40,001          | 12.85%    |
| 3         | Sheetal Dugar                       | 44,29,145          | 9.42%     |
| 4         | Vinod Dugar                         | 43,18,624          | 9.19%     |
| 5         | Subhas Impex (P) Ltd.               | 34,53,252          | 7.35%     |
| 6         | Metalind (P) Ltd.                   | 28,50,000          | 6.06%     |
| 7         | Trinetra Electronics Ltd.           | 24,48,528          | 5.21%     |
| 8         | Tamkore Investment (P) Ltd.         | 24,00,000          | 5.11%     |





| Sr. No. | Name of Shareholders      | No. of shares held | % Holding |
|---------|---------------------------|--------------------|-----------|
| B.      | Shareholders holding < 5% |                    |           |
|         | Others                    | 70,60,136          | 15.02%    |
|         | Total                     | 4,70,00,000        | 100.00%   |

#### McNally Bharat Engineering Company Limited

McNally is headquartered at Kolkata and was incorporated on 10 July 1961. McNally is engaged in providing turnkey solutions in the areas of Power, Steel, Aluminium, Material Handling, Mineral Beneficiation, Pyroprocessing, Pneumatic Handling of powdered materials including fly ash handling and high concentrate disposal, coal washing, Port cranes, Cement, Oil & Gas, civic and industrial water supply etc. The equity shares of McNally are listed on BSE Limited and National Stock Exchange of India Limited.

The issued & paid up equity share capital of McNally as at 26th February 2016 was INR 505.94 mn divided into 5,05,93,818 equity shares of INR 10/- each and its shareholding pattern was as follows:

| Category of Shareholder   | No. of shares held | % of Holding |
|---------------------------|--------------------|--------------|
| Promoter & Promoter Group | 35,645,142         | 70.45%       |
| Public                    | 14,948,676         | 29.55%       |
| Total                     | 50,593,818         | 100.00%      |

#### McNally Sayaji Engineering Company Limited

McNally Sayaji Engineering Limited, incorporated on 06 December 1943 under the provisions of the Indian Companies Act, 1913, is a public company and having its registered office at 4 Mangoe Lane, Kolkata, West Bengal 700 001.

McNally Sayaji Engineering Limited is engaged in the business of manufacture of crushing, screening, grinding, material handling and mineral processing equipment.

The issued & paid up equity share capital of MSEL as at 31st December 2015 was INR 8,98,92,730 divided into 89,89,273 equity shares of INR 10/- each and its shareholding pattern was as follows on 31st December 2015:

| Category       | No. of shares held | % of Holding |
|----------------|--------------------|--------------|
| Promoter Group | 6,729,698          | 74.86%       |
| Public         | 2,259,575          | 25.14 %      |
| Total          | 8,989,273          | 100.00%      |



**6. VALUATION TECHNIQUES ADOPTED BY THE VALUER TO ASCERTAIN THE EXCHANGE RATIO**

The Valuer has arrived at the exchange ratio considering the following valuation methodologies:

**Discounted Cash Flow Method**

This method values an enterprise on the basis of its earning potential. The valuation is made using the free cash flows that the business can be expected to generate in the future and it has two components:

- a) Discounted value of the free cash flows of the company for the explicit forecast period
- b) Terminal value (value after the explicit forecast period)

Under this method, the Valuer has considered a forecast period of five years ending March 31, 2016 to March 31, 2020. The post tax cash flows for the forecast period have been estimated and have been adjusted for the estimated capital expenditure and for the changes in working capital to derive the free cash flows available to the equity shareholders. The free cash flows have been discounted by the weighted average cost of capital (WACC) to derive at the net present value. The terminal value has been discounted by WACC to derive its present value.

**Market Price Method**

Under this method, the value of a company is derived by using the volume weighted market price of the shares of the company during a certain period preceding the valuation date.

For Kilburn and McNally, the Valuer has arrived at a valuation range based on the volume weighted average price on the Stock Exchanges. As the company EMC is not listed on any exchange, the Valuer has not taken the Market Price into consideration. As the company MSEL is listed only on the regional stock exchange where no trading takes place, the Valuer has not taken the Market Price of MSEL into consideration.

The valuation method used by the Valuer for each of the companies is as under:

| Name of the Company | Valuation method applied                          |
|---------------------|---|
| Kilburn             | Discounted Cash Flow method & Market Price method |
| FMC                 | Discounted Cash Flow method                       |
| McNally             | Discounted Cash Flow method & Market Price method |
| MSEL                | Discounted Cash Flow method                       |

Though different values have been arrived at under each of the above methodologies, for the purposes of recommending a fair exchange ratio of equity shares, the Valuer has given appropriate weights to the values arrived at under each methodology to arrive at a single value.





## 7. EXCHANGE RATIO RECOMMENDED

Based on the valuation range arrived from the aforesaid valuation methods, the Valuer has recommended the following Exchange Ratios.

### Merger of EMC with Kilburn

EXCHANGE RATIO of 235:100 i.e. 235 (Two Hundred Thirty Five) equity shares of Kilburn of INR 10/- each fully paid up for every 100 (One Hundred) equity shares of EMC of INR 10/- each fully paid up.

### Merger of McNally with Kilburn

EXCHANGE RATIO of 120:100 i.e. 120 (One Hundred and Twenty) equity shares of Kilburn of INR 10/- each fully paid up for every 100 (One Hundred) equity shares of McNally of INR 10/- each fully paid up

### Merger of MSEL with Kilburn

EXCHANGE RATIO of 293:100 i.e. 293 (Two Hundred Ninety Three) equity shares of Kilburn of INR 10/- each fully paid up for every 100 (One Hundred) equity shares of MSEL of INR 10/- each fully paid up.

## 8. FAIR VALUE FOR CONVERSION OF INTER CORPORATE DEPOSITS

For conversion of inter corporate deposits amounting to Rs. 40 crores, Kilburn shall issue and allot 34,61,405 equity shares of Rs. 10 each fully paid up.

## 9. OPINION ON EXCHANGE RATIO AND FAIR VALUE FOR CONVERSION OF INTER CORPORATE DEPOSITS

Based on the information, material and data made available to us, including the Report of the Valuer and the working thereto, in our opinion the said share exchange ratios recommended for the merger and the fair value recommended for the conversion of inter corporate deposits are fair and proper.

For Microsec Capital Limited

Manav Goenka  
Vice President  
Investment Banking



McNALLY BHARAT ENGINEERING CO. LTD.

  
DIBAKAR CHATTERJEE  
COMPANY SECRETARY